MEMO

DATE: 08/21/06

TO: Regional Council

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SUBJECT: State of the Motion Picture Industry in Southern California

SUMMARY:
This analysis is an economic overview of the motion picture industry in Southern California. It examines the industry's importance to the regional economy and presents economic trends and indicators. Based on these findings, the analysis provides recommendations for the region to continue exerting its status as the industry's premier location.

BACKGROUND:
The Regional Council requested that an analysis be prepared to examine the motion picture industry in the region and provide recommendations based on those findings. Attached are a report with analysis and findings and a recent news article from the Los Angeles Times referenced in the report.

State of the Motion Picture Industry in Southern California

Ma'Ayn Johnson, Assistant Regional Planner

Purpose

For over half a century, the motion picture industry in Southern California has been an essential part of the regional economy. The purpose of the following analysis is to examine the importance of the industry to the SCAG regional economy and to compare its historical status against the rise elsewhere in the state and nation. The major findings of this analysis are:

- The industry workforce is expanding, though the number of firms is decreasing.
- There has been an increase in lower-paying industry jobs in the SCAG region.
- Despite its historical roots in Los Angeles County, the industry's higher-paying jobs are slowly decentralizing from the region to other parts of the state and nation.
- Production is increasingly turning to shorter-term projects, such as television shows, that generate less revenue than full-length films.
- Legislation and action taken must focus on retention for the SCAG region rather than tackling industry-wide issues.

Introduction

The entertainment industry in the SCAG region has been one of the most important industries both culturally and economically to the six-county area. Specifically, the motion picture industry[1] has continued to carry a significant portion of the regional economy since its beginnings in the earlier part of the 20th century. However, economic indicators suggest that while the industry as a whole has experienced steady growth, the region has had trouble retaining its share of high income jobs, particularly in comparison to the rest of the state and nation.

This short analysis will provide a general economic overview of the motion picture industry in the SCAG region using various indicators and its contribution to the regional economy. Furthermore, it will explore the issues facing the industry today and their implications for the future of the region.

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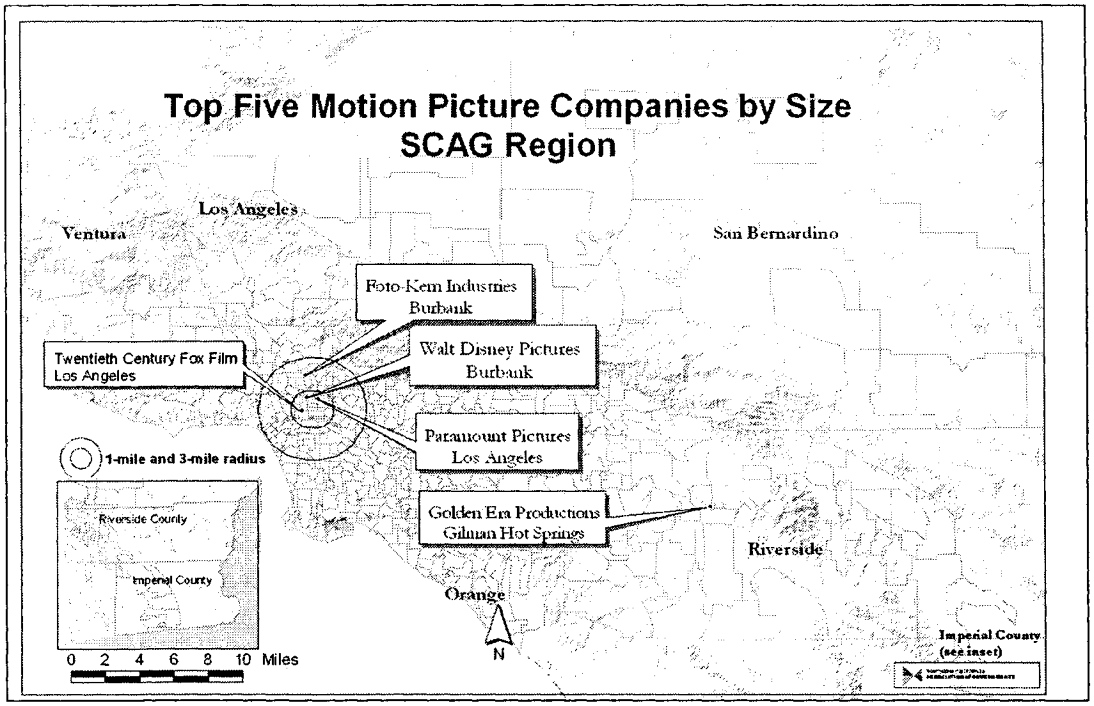
[1] The entertainment industry covers a wide range of operations, including television, motion pictures, and music recording. For the purposes of this memo, the motion picture industry has been defined using the North American Industry Classifcation System (NAICS) category 5121, motion picture and video industries. This category covers a wide range of sub-industries, including film production, television and commercial production, film and television distribution, motion picture film processing services, and cinema theaters. Note that this category *excludes* the sound and music recording industries.

Moreover, this category only includes the methods of production for the motion picture industry. It *excludes* other components of film making, including talent and casting agencies, talent guilds, and independent artists, writers, and performers.

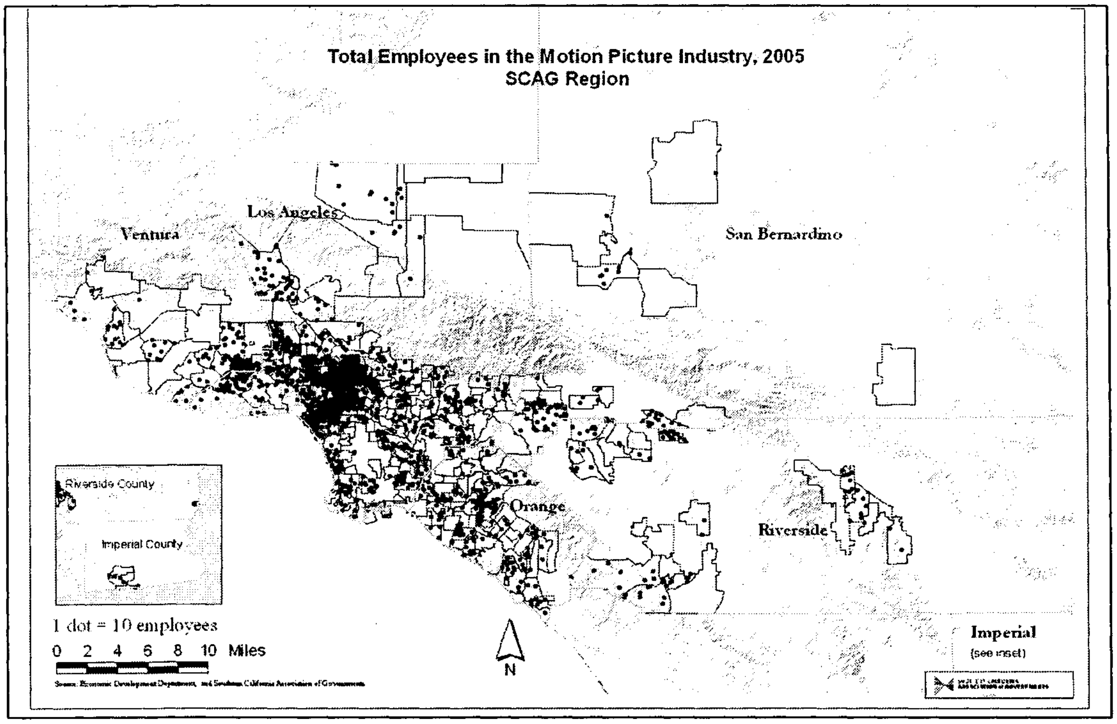
The Motion Picture Industry in the SCAG Region



Source: California Employment Development Department, and SCAG

The map above points out the top five motion picture companies by size in the SCAG region. Three of the largest motion picture industries are within a one-mile radius; four of the five are within a three-mile radius. All but one are located in the middle of Los Angeles County. The two largest, Walt Disney Pictures and Twentieth Century Fox Film, have between 5,000 and 10,000 employees each, and are classified as two of the largest employers in the county. This illustrates the concentration of "the industry", as it is colloquially known, in the heart of Los Angeles County. The fifth largest company, Golden Era Productions, is located in Gilman Hot Springs in Riverside County. As an organization of the Church of Scientology, the company is not known as a mainstream motion picture employer but nevertheless, the company employs between 500 and 1,000 people.

Recent and historical data confirm the concentration of the industry in Los Angeles County; over the past five years, the County accounted for almost 97% of the SCAG region's motion picture industry employers. Moreover, it employs 97% of the industry's labor force and distributes 99% of the total annual payroll. In addition, the Los Angeles industry continues to make up 4% of the county's total employment and over 6% of its overall employee payroll. Though important specifically to Los Angeles, the table below illustrates the concentration of employees throughout the SCAG region:



Source: California Employment Development Department, and SCAG

The majority of the workforce is based in Los Angeles County while some are scattered throughout Orange, Riverside, and Ventura counties. Although San Bernardino County has a small fraction of SCAG's total, for the purposes of this analysis, the county is not included due to the unavailability of certain key statistics.

According to the most recent data available, the motion picture industry in the SCAG region appears to remain fairly steady. Four main indicators are presented in the following table:

Motion Picture Economic Indicators (2001-2005)[2]
SCAG Region

SCAG Region	Number of Firms	% change	Average Monthly Employment	% change
2001	6,123	--	98,690	--
2002	6,095	-0.4%	124,514	26.2%
2003	5,749	-5.7%	119,439	-4.1%
2004	5,548	-3.5%	138,485	16.0%
2005	5,382	-3.0%	129,372	-6.56%

SCAG Region	Total Quarterly Payroll (1000's)	% change	Average Weekly Pay[3]	% change
2001	$8,011,878	--	$1,561	--
2002	$9,495,429	18.5%	$1,467	-6.0%
2003	$9,284,045	-2.2%	$1,495	1.9%
2004	$10,767,556	16.0%	$1,496	0.1%
2005	$10,751,078	-0.2%	$1,598	6.8%

Since 2001, the SCAG region has lost over 12% of the total number of firms in the motion picture industry. However, this alone does not indicate that the industry is in decline. In fact, average employment jumped from 98,000 to almost 130,000 in that same period, a jump of over 30%. This suggests that while the number of employers has decreased, the firms are either merging or expanding their workforce.

Total payroll has increased as well, increasing almost 35%. Profits also translated into a higher average weekly pay, increased almost 10% since 2001. However, the workforce increased at a higher rate (31%) than the average weekly pay (2.4%). This means that most job growth in has occurred in lower-paying positions such as gaffers, production assistants, and post-production editing.

Los Angeles County holds 97% of total industry businesses and accounts for 99% of the quarterly payroll. Thus, the County is considered the regional carrier for the motion picture industry. The average weekly earnings for employees are $1,635, which is comparable to the $1,453 average pay for the aerospace industry and $1,568 for the information technology industry. Wages for the motion picture industry approach twice the $877 earnings of all industries for the County combined.

Although it faced a 5% decline in average weekly pay by 2004, at the end of last year the County reported a jump of 7% over the previous year. The County enjoyed a 35% jump in quarterly payroll and a 33% leap in monthly employment.[4] However, as in the rest of

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[2] Data collected from the QCEW tables from the California Employment Development Department (http://www.labormarketinfo.edd.ca.gov/cgi/dataanalysis).

[3] The average weekly pay is the sum of all wages divided by the number of jobs and is extremely sensitive to small fluctuations, depending on the sample size. The use of the median wage could perhaps indicate a different trend; further analysis might be needed.

[4] Figures were compiled using NAICS category "Motion picture and video industry". It should be noted that a comparison between 2001 NAICS employment and 2001 SIC (Standard Industry Classifcation) reveals the latter records 20,000 more jobs than the former. The SIC system is eventually being phased out to reflect the growing service sector in the economy. The reason for the differences has not been

the region, the growth rate in employment (33%) over the last 5 years outpaced the weekly earnings growth rate (14%). This is most likely due to the increased hiring of lower-paid workers, which affected the overall average among all workers in the industry.

Competition with Other Regions

One of the largest issues facing the industry in the SCAG region is its competition to attract and retain the motion picture industry from other industry-friendly areas, such as the San Francisco Bay Area, San Diego, and New York.

Motion Picture Industry Economic Indicators (2001-2005)
California and the Nation[5]

Nation	Number of Firms	Average Monthly Employment	Total Quarterly Payroll (1000's)	Average Weekly Pay
2001	23,900	337,543	$15,484,936	$882
2002	23,159	357,738	$16,302,890	$876
2003	22,401	343,489	$16,186,036	$906
2004	21,990	358,871	$17,799,357	$954
2005	22,047	352,104	$18,102,545	$989
State	**Number of Firms**	**Average Monthly Employment**	**Total Quarterly Payroll (1000's)**	**Average Weekly Pay**
2001	7,372	118,894	$8,785,525	$1,421
2002	7,339	142,572	$10,302,486	$1,390
2003	6,944	137,681	$10,178,310	$1,422
2004	6,707	156,093	$11,521,606	$1,419
2005	6,509	146,504	$11,538,731	$1,515

The table above shows that the motion picture industry has posted growth since 2001 in terms of employment, payroll, and weekly earnings. As previously indicated in the pattern of Southern California, the only area that has significantly declined in the last 5 years is the number of firms. To determine actual loss to other regions, our national share must be considered:

determined as of the date of this memorandum, but is probably due to the more filtered nature of the NAICS system.

[5] Data collected from the QCEW tables from the California Employment Development Department (http://www.labormarketinfo.edd.ca.gov/cgi/dataanalysis) and the US Department of Labor, Bureau of Labor Statistics (http://www.bls.gov/cew).

Employment Figure Shares (2001-2005)
Los Angeles County

Los Angeles County	Number of Firms		Average Monthly Employment		Total Quarterly Payroll (1000's)		Average Weekly Pay	
	% of State	% of Nation	% of State	%of Nation	% of State	% of Nation	% of State	% of Nation
2001	78.2%	24.1%	79.3%	27.9%	90.0%	51.1%	113.4%	182.8%
2002	78.1%	24.8%	84.2%	33.6%	91.2%	57.6%	108.3%	171.8%
2003	77.7%	24.1%	83.8%	33.6%	90.3%	56.8%	107.7%	169.1%
2004	77.6%	23.7%	86.1%	37.5%	92.7%	60.0%	107.7%	160.2%
2005	77.6%	23.0%	85.5%	35.6%	92.3%	58.8%	107.9%	165.3%

These figures establish Los Angeles County's national and state shares of the industry. While Los Angeles has retained and even added both employment and payroll in competition with other regions, its share of employers and average weekly pay has declined. In 2005, Los Angeles County held 23% of total employers in the nation, a 1 percent decline over 5 years.

Again, a decrease in the number of firms does not necessarily mean loss of jobs since it could suggest mergers or company expansion, and the growing share of employment appears to support this idea. However, the average weekly pay for industry employees is declining compared to both national and state levels, though the County figure still is well above the state and nation. The average weekly pay in the County was over 80% more than the national average, but by 2005, it was only 65% more than the average. Compared to the state, Los Angeles County's average wage declined 5% toward the state average over the same period.

The decline in the share of average wages is probably an indicator that more low-paying jobs are created in Los Angeles County than elsewhere in the country. While this is not necessarily an indicator of economic loss, as we drift towards the state and national median, our region loses its position as the industry's most prominent spot. This could diminish the region's attractiveness and glamour, possibly diverting future growth to faster-growing regions elsewhere.

Production Days

While the indicators in the preceding sections provided an economic perspective on the motion picture industry, they do not show the complete picture. One important measure is the number of production days the industry generates.

Production Days by Type (1995-2005)[6]
Los Angeles County

	Feature	% Change from previous year	Television	% Change from previous year	Commercial	% Change from previous year	Total
1995	9,393	--	7,831	--	6,983	--	24,207
1996	13,980	48.8%	9,425	20.4%	6,703	-4.0%	30,109
1997	13,284	-5.0%	11,113	17.9%	5,701	-14.9%	30,098
1998	11,542	-13.1%	11,185	0.6%	5,615	-1.5%	28,342
1999	10,526	-8.8%	10,279	-8.1%	5,580	-0.6%	26,385
2000	9,501	-9.7%	11,142	8.4%	4,951	-11.3%	25,594
2001	9,379	-1.3%	10,867	-2.5%	6,569	32.7%	26,815
2002	8,024	-14.4%	12,870	18.4%	6,152	-6.3%	27,046
2003	7,329	-8.7%	14,395	11.8%	6,654	8.2%	28,378
2004	8,707	18.8%	18,257	26.8%	5,645	-15.2%	32,609
2005	9,518	9.3%	18,740	2.6%	4,845	-14.2%	33,103

The table above shows the total number of production days accrued in the industry for Los Angeles County, along with a breakdown of type and the percentage change from the previous year. A notable trend over the past 5 years is the slow decrease in number of feature film production days, and the increase of television production days. Although the total number of days has increased over the past 5 years, television accounts for over half of the total. This is a considerable growth from 40% and 32% over the past 5 and 10 years, respectively.

Television shoots are seen in the industry as generating less economic opportunities since they tend to be shorter productions with smaller budgets. This suggests that the loss of feature films means less retention of industry money than was experienced in the past.

Current Issues with the Motion Picture Industry

One of the most crucial issues facing the motion picture industry everywhere is piracy. Although efforts have been put forth by both the industry and lawmakers alike, the problem persists and with technological progress, the problem will most likely worsen. According to the Motion Picture Association of America (MPAA), MPAA studios lost $6.1 billion to piracy in 2005. Of that amount, about $2.4 billion was lost to bootlegging, $1.4 to illegal copying, and $2.3 billion to internet piracy.[7]

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[6] Source: Film L.A., Inc.
[7] Motion Picture Association of America, http://mpaa.org/press_releases/2006_05_03lek.pdf

Rising production costs have also placed an impact on the industry. The costs are passed onto movie goers, who in turn are turned off by higher ticket prices. Many might wait until the film comes out on DVD, while others will simply turn to pirating to see the movie. There is concern in the industry that less profit is recovered, which might encourage the industry to locate regions with better economic incentives to maximize profit.[8] For the SCAG region, this might mean the loss of the industry to places with tax credits and exemptions for industry firms and investments. As of 2005, thirty-one states and Puerto Rico have some form of tax exemption specifically for motion picture production in their respective state or territory.[9]

Another issue is the increasing demands of industry unions. Most notably, the Screen Actors Guild (SAG) and the Writers Guild West (WGA) have demanded more from studios and executives in terms of revenue. Due to the rising popularly of DVDs, partially caused by the rising ticket costs, the unions want a larger share of the growing DVD profits.[10] This could potentially pave the way for future strikes, leading to losses of production, jobs, and profit.

Most recently, major studios have begun layoffs in an effort to restructure their business and boost profits. Worldwide, the industry has slashed 2,000 jobs and is considering more layoffs in the future. In Burbank, Walt Disney Co. announced in July that they would layoff 650 employees. Some analysts acknowledge the effects of job and resulting production loss can equate to loss in other industries. Businesses indirectly connected to the motion picture industry, such as catering, costume production, and equipment rentals, will be affected by these losses. However, despite this trend, many analysts remain optimistic about the region's industry and see it as a way for companies to remain competitive in the global business.[11]

Recommendations

This analysis illustrates that the SCAG region's prominence in the industry is gradually declining. While the region continues to a steady increase in jobs and payroll, average pay is drifting towards the average for the rest of the state and nation. Although this does not necessarily equate to a loss of quality jobs here, it indicates that our share of the industry does not carry the attractiveness or glamour of past years. This could lead to retention problems later while other regions begin to gain prominence in the industry.

In order to retain its status as an industry powerhouse, Los Angeles County and the SCAG region must look for ways to retain employers and maintain its competitiveness. A key approach is to provide more tax incentives for the motion picture industry, in particular tax credits to studios for on-location filming. As mentioned in the previous section, production days for feature films have been declining for the past eight years, which suggests that on-location filming for these films are drawn outside the region.

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[8] Source: Los Angeles Economic Development Corporation (LAEDC), "Film Industry Profile of California/Los Angeles County, p.5

[9] Source: Motion Picture Association of America, "State-by-state Tax Incentives for the Film Industry",

[10] Source: Los Angeles Economic Development Corporation (LAEDC), "Film Industry Profile of California/Los Angeles County, p.7

[11] Source: Claudia Eller and Richard Verrier, "As Layoffs Sweep Movie Studios, Hollywood Fears for Its Future", Los Angeles Times, July 20, 3006, online edition.

Attracting and retaining on-location feature film production will increase employment and economic activity for the region's industry.

It has also been suggested that there should be more legislative action to combat piracy since the industry continues to lose money from bootlegging and illegal copying. However, though confronting this issue will certainly slow economic loss to the industry worldwide, it does not tackle the local retention issue. While stopping piracy will help area firms, it will not necessarily prevent them from taking their labor and money elsewhere. Thus, legislation and action directed towards the motion picture industry must aim for industry retention rather than simply addressing widespread issues.

Furthermore, we should periodically examine the state of the motion picture industry in the SCAG region and develop analyses such as this one. In particular, average wages should be studied in future analyses to determine both SCAG's prominence within the industry and where our future is headed. The motion picture industry is a historical and cultural part of the regional economy and needs to be attentively studied so that it can continue exerting its status as the premier location of the entire industry.

Los Angeles Times
latimes.com.

http://www.latimes.com/entertainment/news/la-fi-hollyfear20jul20,0,3528980,full.story?coll=la-opinion-center
From the Los Angeles Times

As Layoffs Sweep Movie Studios, Hollywood Fears for Its Future

By Claudia Eller and Richard Verrier
Times Staff Writers

July 20, 2006

Never mind that movie ticket sales are picking up and that "Pirates of the Caribbean: Dead Man's Chest" could become the biggest hit in motion picture history. As studios slash jobs and restructure to boost profits, Hollywood's creative and executive ranks are having a collective anxiety attack.

Walt Disney Co.'s move this week to lay off about 650 employees and revamp its Burbank studio to make fewer films only confirms what many in the entertainment industry have been stressing over for months: The movie business is shrinking.

Disney's firings, which started at the top with the studio's production chief, are the latest in an industrywide contraction that has cost more than 2,000 jobs worldwide. In Los Angeles, particularly, the economic effect is being widely felt.

Here, in an industry built on bravado, people are suddenly talking openly about being afraid.

"I think we're moving into uncharted territory, and there's great unease about where we're headed," said Oscar-winning producer Doug Wick, whose credits include "Gladiator" and this year's "RV." "Occasionally, this fear turns into panic."

Producer Brian Grazer, a multiple Oscar winner whose current release "The Da Vinci Code" has racked up more than $700 million worldwide, went further.

"It's as if the managerial elite has made a secret pact to adhere to certain business principles that they want to enforce on agents and artists," said Grazer, who sees studios as more rigid today about how far they'll stretch to compensate even the biggest stars, directors, producers and writers on movie projects.

"That's never happened in the 25 years I've been producing."

Disney is not the only media conglomerate over the last year to cut, and cut deeply. Financial pressures recently forced the owners of two major movie studios, Metro-Goldwyn-Mayer Inc. and DreamWorks SKG, to sell once-vital operations to deeper-pocketed players. Those moves resulted in about 1,350 lost jobs.

Another formerly robust supplier, Revolution Studios — an independently financed production company that counted Sony Pictures among its investors — has significantly downsized its ranks and ambitions after too many box-office misses.

Disney dramatically scaled back its Miramax Film specialty unit from the mini-studio that it had been under its founders, Bob and Harvey Weinstein. And Time Warner Inc.'s Warner Bros. cut about 400 jobs.

As DVD sales level off and soaring talent, production and marketing costs slice into profits, most studios have opted to hedge their bets by taking outside financiers as partners on many of the movies they make.

Another sign of belt-tightening: Sony is in the throes of severing a number of producer deals at its Culver City lot.

"We're running into some pretty choppy waters, and so you trim your sails," Sony Pictures Chief Executive Michael Lynton said, adding that the studios in general were having to be more prudent because "some of the cushions that were there in the past are no longer there."

Among those cushions, he said: "More-predictable DVD sales, a much bigger TV network market for films, and reliable audience reaction to the TV marketing of our movies."

Media analysts agree that in watching their bottom lines, entertainment companies are simply doing what is necessary to raise sagging stock prices and earnings. But they acknowledge that the conglomerates that own studios appear to be losing some confidence in the movie business.

"The media companies don't like it as much as they used to," Wall Street analyst Harold Vogel said.

"They don't see it as a prime engine of growth anymore, so they're farming out as much of the risk as they can to private-equity and hedge-fund partners. They are just not as interested in throwing additional capital into the business."

Lowell Singer of Cowen & Co. said that though job losses were "devastating for the industry, it doesn't suggest that the film business is no longer attractive."

"These companies just want to be more economically sensible about how they're competing in the film business," Singer said.

That's no comfort, of course, to the devastated.

The rollback in production will have consequences well beyond the major Hollywood studios, squeezing a range of service industries that cater to entertainment companies, experts say.

"The layoffs will ripple through the economy because the motion picture and TV production industry has a multiplier impact," said Jack Kyser, chief economist of the Los Angeles County Economic Development Corp. Every new job in the entertainment sector produces two more jobs in the local economy, he said.

"You have location scouts, caterers, the people who sell caps and jackets and rent equipment," he said. "They'll all be affected."

The economic effect will be mitigated by a continued increase in local television production and the overall health of the Los Angeles economy, where unemployment is running at its lowest levels in years, Kyser added.

Still, the current contraction is sure to have a far-reaching effect, including on talent agencies, which procure jobs not only for actors, directors, and writers but also for so-called below-the-line workers such as costumers, script supervisors and camera operators.

"It's not doomsday by a long shot," said Jim Wiatt, chief executive of William Morris Agency. "But our agency is keeping a close eye on all these companies and how it affects our clients and how we run our own business."

Steve MacDonald, president of FilmL.A. Inc., which issues film permits in the city and unincorporated areas of the county, said the studio cuts would hurt local film crews that have already suffered as Canada and other places have lured productions away with tax incentives.

Lance Sorenson, president of 24/7 Studio Equipment in Burbank, which leases aerial equipment to film crews, said the cuts at Disney were bad news.

"It absolutely has a big-time effect on us," said Sorenson, whose firm employs 27 people. "It's the old trickle-down theory."

Add to this concerns over possible labor disputes during the next two years. Studios are girding for potential strikes as leaders of the Writers Guild of America, West and the Screen Actors Guild vow to take a harder line in negotiations.

Even film schools are being affected.

"The professional landscape which our graduates are entering is one in which feature films are going to play a smaller part," says Charles Merzbacher, who heads Boston University's Department of Film and Television. In the fall, he noted, the school will offer a course in producing content for iPods and cellphones — a way of ensuring "that our students have a future."

Wick, the producer, said he wasn't ready to give up. Not yet.

"Having survived a lot of these cycles, there's a pattern of the whole town overreacting," he said.

"People go into a free-fall anxiety that the movie business as we know it is somehow going to dematerialize. I'm more optimistic."